

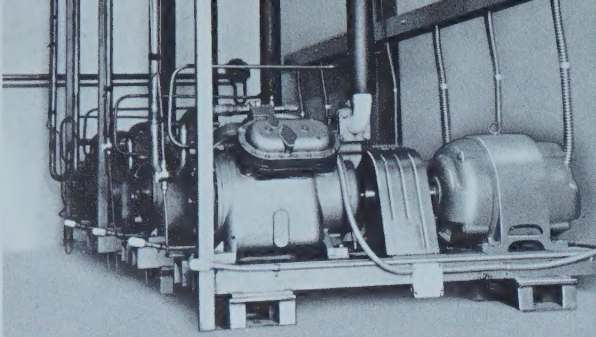
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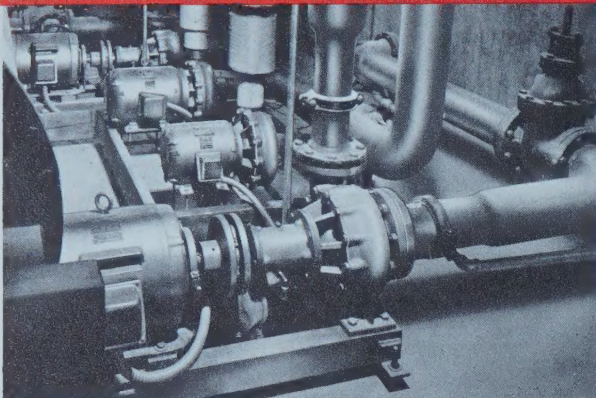
ANNUAL REPORT 1963



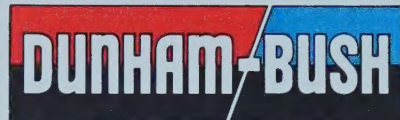
AIR CONDITIONING, REFRIGERATION, HEATING PRODUCTS AND ACCESSORIES



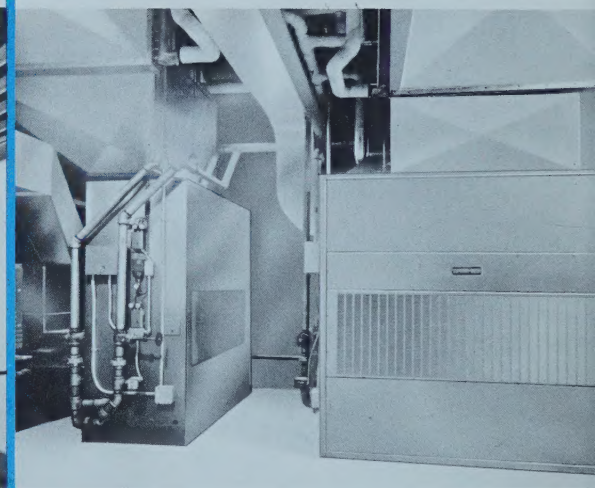
NEW "BIG 4" COMPRESSOR INSTALLATION
AT FROZEN FOOD PLANT.



DUNHAM-BUSH CENTRIFUGAL PUMPS
ON PROCESS INSTALLATION.



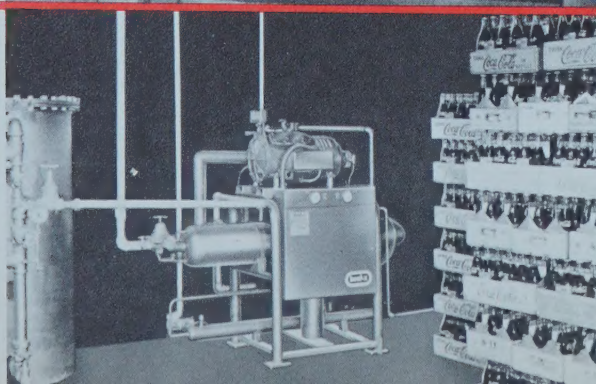
PLASTI-COOLER
REFRIGERATION UNITS
IN MEAT STORAGE
WALK-IN COOLER.



SELF CONTAINED PACKAGED AIR CONDITIONER
IN BASEMENT OF OFFICE BUILDING.



FIN VECTOR FOR HEATING
OF MOTEL LOBBY.



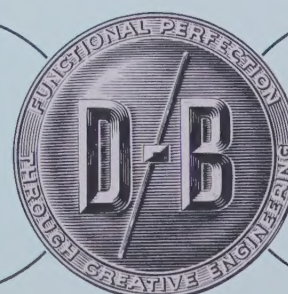
HEAT-X PACKAGE CHILLER
USED IN COCA COLA BOTTLING PLANT.



FINANCIAL HIGHLIGHTS

	1963	1962	1961	1960	1959	1958
Sales	\$41,384,000	\$38,842,000	\$32,688,000	\$33,106,000	\$33,004,000	\$32,226,000
Federal and Foreign Taxes	438,000	702,000	347,000	496,000	618,000	461,000
Total Net Earnings	562,000	525,000	273,000	526,000	625,000	407,000
Earnings Per Common Share*	.43	.40	.21	.40	.48	.31
Current Ratio	3.14	1.95	2.10	2.13	2.11	2.36
Working Capital	14,830,000	9,327,000	8,669,000	8,561,000	8,718,000	8,375,000
Net Worth	12,058,000	11,521,000	11,039,000	10,788,000	10,512,000	10,378,000
Net Worth Per Common Share*	9.34	8.91	8.51	8.30	8.08	7.96
Number of Employees	2,380	2,350	2,000	1,900	2,000	1,842
Number of Preferred Shares Outstanding	1,768	1,820	2,103	2,240	2,324	2,513
Shareholders—Common	6,080	6,228	6,576	6,818	6,891	6,826
Shareholders—Preferred	162	165	183	187	202	203

*Based on 1,272,725 shares outstanding
at Sept. 30, 1963





TO OUR STOCKHOLDERS, EMPLOYEES AND FRIENDS:

Sales during the 1963 fiscal year were the highest in the history of our Company. This increase was the result of improved acceptance of our products throughout the refrigeration, air conditioning and heating industry. Most of the increase was in the air conditioning market in which we have our most competitive price situation.

Our net income did not keep pace with our sales increase due to the general price squeeze in our industry as well as some excess overhead incurred in anticipation of greater sales. There have been no price increases in our industry for several years now, even though labor and material costs have increased.

A more intensified Profit Improvement Program was put into operation during fiscal 1963, and the results of this program are just beginning to show in the operating results of our Company.

EARNINGS AND SALES

Net earnings for the fiscal year ended September 30, 1963, amounted to \$562,000 or \$.43 per common share (after preferred dividends of \$9,000) as compared to net earnings of \$525,000 or \$.40 per common share last year.

This net income was earned on sales of \$41,384,000 as compared to sales of \$38,842,000 for last year.

FINANCE

The working capital of your Company was \$14,830,000 as compared to \$9,327,000 for the previous year, and our ratio of current assets to current liabilities is 3.1 to 1. This increase in working capital resulted primarily from the sale of notes, due in 1980, to insurance companies in the total amount of \$7,500,000, previously reported to our stockholders.

A 5% stock dividend was declared in September and paid on October 31, 1963. The per share earnings used in this report are based upon the number of shares outstanding after the 5% stock dividend, even though this distribution took place after the fiscal year end. The usual preferred stock dividend was paid to the preferred stockholders.

MANUFACTURING FACILITIES

A substantial addition was made to our Riverside, California, plant during this past year and further expansion took place at our plant in Portsmouth, England. Our program of improvement and modernization in tooling, equipment and in-plant facilities has continued.

Additional property is in the process of being obtained, adjoining our Marshalltown, Iowa, plant, that will be used for future expansion at that location.

MARKETING

There has been no basic change in our marketing setup. We continue to market our products through air conditioning and refrigeration wholesalers, heating wholesalers, contractors and original equipment manufacturers. Our program has been and will be to gradually expand our sales coverage throughout the world.

During the past year, we have added two licensees, which brings the number of our international licensees to seven. Through our licensees, and with our Portsmouth, England, plant serving as a base for European operations, we have been able to increase our world-wide coverage.

RESEARCH AND ENGINEERING

Although during the past year we instituted substantial cost reductions, in line with our Profit Improvement Program, we in no way reduced our efforts on research and development. A number of new products were introduced during the year. Many product revisions were made, and others are under development for future years. A few of the new products introduced this past year are as follows: a new, low-cost line of refrigerating compressors in the 15 h.p. to 35 h.p. range; gas engine driven package chillers up to 100 tons capacity; air cooled package chillers up to 30 tons capacity; carbonator pump and packaged equipment for the beverage industry; a line of hot water circulators for residential and smaller commercial applications; an extension of our roof-mounted conditioner line through 30 tons; and a new line of in-space comfort conditioners through 15 tons capacity.

During the past year, we completed our compressor development programs that were started in 1957 and, today, we have one of the most complete lines of reciprocating compressors in the industry. We are also working on major future modifications to compressors, both in the small and large sizes. All effort is being made to keep our product development in refrigeration, air conditioning and heating of such magnitude that we can maintain our position in the industry and grow with it.

We have continued to do developmental work in the research area for the Armed Services on refrigeration contracts.

EMPLOYEES

During the last year, important executive changes were made in your Company with emphasis on promotion from within. Some of these appointments include: James A. Mulcahey, formerly Vice President of Sales, to Managing Director, Dunham-Bush, Ltd., England; John J. Castello, formerly Sales Office Manager, Los Angeles, to Vice President of Sales; Edgar L. Disbrow, formerly Sales Office Manager, Chicago, to Sales Manager of Refrigeration Products. In addition to these, appointments to key positions in all areas of the Company have been made in line with our policy of promotion and recruitment of outstanding young men.

Our total employment throughout the world at the end of 1963 was 2,380 employees. Our employee relations have continued on a most satisfactory basis, and we want to express our appreciation for the efforts of our many loyal employees.

OUR PROSPECTS

Your Company entered fiscal 1964 with a slightly lower backlog than it had a year ago. Incoming orders in the first two months of the current year were ahead of a year ago. Although competitive pressures continue to increase, we forecast a moderate increase in sales volume. Through our Profit Improvement Program, we expect to offset rising costs. We also expect operating results to improve in the fiscal year 1964.



PRESIDENT



AND SUBSIDIARIES CONSOLIDATED

SEPTEMBER 30, 1963 and 1962

ASSETS

	1963	1962
CURRENT ASSETS:		
Cash	\$ 1,432,820	\$ 1,056,650
Marketable securities, at cost (approximates market)	—	84,000
Accounts receivable, less allowance for doubtful accounts: 1963, \$256,145; 1962, \$229,353	8,100,650	7,378,954
Inventories at the lower of cost (generally first-in, first-out) or market	12,125,243	10,505,193
Prepaid expenses	96,007	88,324
TOTAL CURRENT ASSETS	21,754,720	19,113,121
 MISCELLANEOUS INVESTMENT, at cost (market value: 1963 and 1962, \$118,440) . .	 126,450	 126,450
 PROPERTY, PLANT AND EQUIPMENT, at cost less allowances for depreciation and amortization	 6,984,538	 6,533,507
GOODWILL	217,750	233,650
DEFERRED CHARGES AND OTHER ASSETS .	362,754	191,191
	<u><u>\$29,446,212</u></u>	<u><u>\$26,197,919</u></u>

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET

LIABILITIES

CURRENT LIABILITIES:

	1963	1962
Notes payable to banks	\$ 1,639,215	\$ 3,450,000
Long-term debt due within one year	213,131	511,100
Accounts payable and accrued expenses	4,618,684	5,532,314
Federal and foreign income taxes	453,403	292,706
TOTAL CURRENT LIABILITIES	6,924,433	9,786,120
FOREIGN INCOME TAXES (non-current portion)	180,600	249,200
LONG-TERM DEBT	10,283,359	4,641,474
TOTAL LIABILITIES	17,388,392	14,676,794

CAPITAL

CAPITAL STOCK:

Preferred, \$5 cumulative, par \$100, callable
at par; authorized 5,000 shares:

	1963	1962
Shares issued	1,803	1,932
Shares in treasury	35	112
	<u>1,768</u>	<u>1,820</u>
	176,800	182,000

Common, par \$2; authorized 1,500,000 shares,
issued and outstanding, 1,272,725 shares
at September 30, 1963 and 1,214,355 shares
at September 30, 1962

	2,545,450	2,428,710
CAPITAL SURPLUS	2,283,790	2,100,830
RETAINED EARNINGS, as annexed	7,051,780	6,809,585
	<u>\$29,446,212</u>	<u>\$26,197,919</u>

The accompanying notes are an integral
part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME

for the fiscal years ended
September 30, 1963 and 1962

	1963	1962
Net sales	\$41,384,492	\$38,841,923
Cost of sales	<u>29,629,256</u>	<u>27,980,311</u>
Gross profit	11,755,236	10,861,612
Selling, engineering, general and administrative expenses	<u>10,223,780</u>	<u>9,181,330</u>
	1,531,456	1,680,282
Other income	<u>161,428</u>	<u>222,910</u>
	<u>1,692,884</u>	<u>1,903,192</u>
Other deductions:		
Interest expense	621,212	548,047
Unrealized foreign exchange loss	7,500	88,800
Other, net	<u>63,832</u>	<u>38,803</u>
	<u>692,544</u>	<u>675,650</u>
	1,000,340	1,227,542
Provision for United States and foreign income taxes	<u>438,000</u>	<u>702,000</u>
NET INCOME	<u>\$ 562,340</u>	<u>\$ 525,542</u>

The accompanying notes are an integral
part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the fiscal years ended
September 30, 1963 and 1962

	1963	1962
BALANCE at beginning of year	\$ 6,809,585	\$ 6,583,247
NET INCOME	<u>562,340</u>	<u>525,542</u>
	<u>7,371,925</u>	<u>7,108,789</u>
DIVIDENDS:		
\$5 preferred stock	8,965	9,634
Common stock, 5% stock dividend including \$12,035 in 1963 and \$9,200 in 1962 in lieu of fractional shares	<u>311,180</u>	<u>289,570</u>
	<u>320,145</u>	<u>299,204</u>
BALANCE at end of year	<u>\$ 7,051,780</u>	<u>\$ 6,809,585</u>

The accompanying notes are an integral
part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. The following U. S. dollar amounts (translated at appropriate rates of exchange) in respect of the English and Canadian subsidiaries are included in the consolidated financial statements:

	1963
Net current assets	\$ 3,066,660
Net fixed and other noncurrent assets	1,887,723
	<u>\$ 4,954,383</u>
Net income	<u>\$ 441,861</u>

2. Inventories comprise:

	1963
Raw materials and supplies	\$ 4,783,457
Work in process	4,336,450
Finished product	3,005,336
	<u>\$12,125,243</u>

3. Property, plant and equipment comprise:

	1963
Land	\$ 322,733
Buildings and improvement	4,029,436
Machinery and equipment	8,573,225
Leasehold improvements	103,382
Construction in process	393,908
	<u>13,422,684</u>
Less, Allowances for depreciation and amortization	6,438,146
	<u>\$ 6,984,538</u>

4. Goodwill, which arose in prior years through the acquisition of capital stock or assets of companies at a cost in excess of the net book values of such capital stock or assets, is being amortized ratably by charges to income over a period of 20 years.

5. Long-term debt consists of the following:

	1963
6% Subordinated Debentures, due April 1, 1977, less \$4,500 in treasury	\$ 2,975,794
5¾% Promissory notes, annual prepayments of \$420,000, 1965 through 1979 and unpaid balance on September 1, 1980	7,500,000
Other	20,696
	<u>10,496,490</u>
Less, Amounts due within one year	213,131
	<u>\$10,283,359</u>

The indenture relating to the 6% Subordinated Debentures due April 1, 1977 requires that the Company will, on or before each April 1, redeem through a sinking fund, at par, the principal amount of debentures equal to 5% of the largest principal amount of such debentures ever outstanding at any one time (except that in the event consolidated net income shall not equal the amount of the required sinking fund payment, such payment may be deferred for two years). The principal amount to be redeemed by April 1, 1964 is \$210,600 and such amount less \$4,500 in treasury is reflected in the consolidated balance sheet at September 30, 1963 as a current liability. In addition the indenture provides that the Company, at its option, may redeem a like additional amount each year at 100% and the balance at redemption prices varying downward from 101½%.

6. A sinking fund for the redemption of the preferred stock is required to be set aside each year prior to December 15, in an amount equal to 5% of net income, as defined, after preferred dividends, of the Company and its domestic and Canadian subsidiaries. The December 15, 1963 preferred stock sinking fund requirement is \$14,600 which may be satisfied either by cash or by deposit of preferred stock previously purchased.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

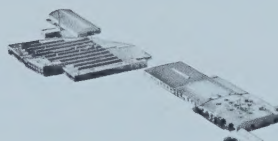
7. Under the terms of the long-term 5 $\frac{3}{4}$ % promissory notes, cash dividends may not be paid and capital stock or debentures of the Company may not be acquired unless (1) working capital exceeds 150% of long-term debt (2) earnings retained in the business exceed a calculated amount, as defined. At September 30, 1963, based on the working capital provision, all the retained earnings were restricted.
8. The financial statements reflect a 5% stock dividend on common stock declared on September 18, 1963, payable October 31, 1963 to stockholders of record October 15, 1963. As a result \$311,180 (the fair value at date of record) of retained earnings has been transferred to capital stock (\$116,740 representing 58,370 shares of \$2 par value Common Stock), capital surplus (\$182,405), and accounts payable (\$12,035 for payment to stockholders in lieu of fractional shares).
9. The increase of \$182,960 in capital surplus arose through the acquisition of preferred stock at a discount by the Company (\$555) and \$182,405 as a result of the stock dividend explained in Note 8 above.
10. Provisions for depreciation and amortization amounted to \$950,036 in 1963 and \$947,383 in 1962.



WEST HARTFORD, CONNECTICUT



RIVERSIDE, CALIFORNIA



MICHIGAN CITY, INDIANA



MARSHALLTOWN, IOWA

AUDITORS' REPORT

To the Board of Directors and Stockholders of
Dunham-Bush, Inc.:

We have examined the consolidated balance sheet of DUNHAM-BUSH, INC. and its Subsidiaries as of September 30, 1963 and the related statements of income and retained earnings for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished with the financial statements of the United States, Canadian and British wholly-owned subsidiaries, which statements were not examined by us, but were examined by other certified public or chartered accountants. Our opinion expressed herein, insofar as it relates to the amount included for the subsidiaries, is based solely upon such reports. We made a similar examination for the fiscal year ended September 30, 1962.

In our opinion, the accompanying balance sheet and statements of income and retained earnings present fairly the consolidated financial position of Dunham-Bush, Inc. and its subsidiaries at September 30, 1963 and 1962, and the results of their operations for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

Hartford, Connecticut, November 8, 1963

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 JAMES A. MULCAHEY, *Vice President*
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 ALAN S. DECKER, *Vice President—Engineering*
 WILLIAM H. JOHNSON, *Vice President—Manufacturing*
 L. LESLIE GARNSEY, *Secretary and Assistant Treasurer*
 PHILIP E. MURRAY, *Controller*
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 FREDERICK H. SCHROEDER, *Executive Vice President, Lee Higginson Corp., New York, N. Y.*

Subsidiaries—Officers

HEAT-X, INC.—Brewster, New York

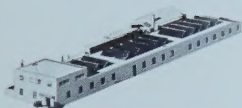
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 R. D. LONG, *Vice President*
 H. W. MACDONELL, *Secretary*
 A. L. GLOVER, *Vice President—Sales*
 J. FARRER, *Assistant Treasurer*

DUNHAM-BUSH, LTD.—Portsmouth, England

J. A. MULCAHEY, *Managing Director*
 C. F. ASSHETON, *Assistant Managing Director*
 C. W. NAYLOR, *Director—Sales*
 A. C. PATTEN, *Secretary*



BREWSTER, NEW YORK



WESTON, ONTARIO



PORT HOPE, ONTARIO



PORTSMOUTH, ENGLAND

Main Offices & Factories

WEST HARTFORD, CONN., *Main Office, 179 South Street*
 RIVERSIDE, CALIFORNIA, *1850 Massachusetts Ave.*
 WEST HARTFORD, CONN., *Compressor Division, 179 South Street*
 MICHIGAN CITY, INDIANA, *506 E. Second Street*
 MARSHALLTOWN, IOWA, *811 E. Main Street*

SUBSIDIARIES

HEAT-X, INC., *Brewster, New York*
 DUNHAM-BUSH OF CANADA LTD., *140 Wendell Ave., Weston, Ontario*
 PORT HOPE DIVISION, *Port Hope, Ontario*
 DUNHAM-BUSH, LTD., *Fitzherbert Road, Farlington, Portsmouth, Hampshire, England*

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